Illustrative Examples of Premium Tax Credit Variation Among Hypothetical Households

April 16, 2024

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SUMMARY

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April 16, 2024

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Individuals without access to subsidized health insurance coverage may be eligible for the premium tax credit (PTC), a federal subsidy that reduces an individual's or family's premium for qualified health plans offered through the health insurance exchanges established under the Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended). The dollar amount of the PTC varies for each individual (or family), based on a formula specified in statute. The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) and the enacted budget reconciliation measure commonly referred to as the Inflation Reduction Act (IRA; P.L. 117-169) made temporary changes to the PTC's eligibility criteria and subsidy formula. These temporary enhancements will expire at the end of tax year 2025. In February 2023, approximately 14.3 million individuals received advanced payments of the PTC.

Eligibility and calculation of the PTC rely, in part, on the income of the household (individual or family) seeking health insurance from an exchange. The subsidy amount also may vary based on other factors that directly affect premiums, such as age and geographic location. This report provides illustrative examples of possible subsidy amounts for hypothetical households using actual 2023 premiums for qualified health plans. The hypothetical examples vary in demographic and other factors that directly affect PTC calculations.

Although the purpose of the ARPA and IRA PTC provisions was to expand eligibility and provide enhanced subsidies, these provisions interact with other factors that limit the extent to which higher-income households may qualify for the PTC. The report concludes with a discussion that considers the subsidy estimates in a broader context, including interactions with other sources of coverage, actual income distribution, and premium trends.

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Introduction

Individuals and families without access to subsidized health insurance coverage may be eligible for a premium tax credit (PTC). This credit, authorized under the Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended), subsidizes the cost of purchasing specific types of health plans (i.e., *qualified health plans*, or QHPs) offered by private health insurance companies through ACA-established *exchanges* (or marketplaces).[1] In February 2023, approximately 14.3 million individuals received advanced payments of the credit.[2]

Congress passed a series of Coronavirus Disease 2019 (COVID-19)-related relief and economic stimulus legislative measures, including the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). ARPA expanded PTC eligibility and increased subsidy amounts for tax years 2021 and 2022, among other PTC provisions. A subset of ARPA's PTC provisions were extended under the enacted budget reconciliation measure commonly referred to as the Inflation Reduction Act (IRA; P.L. 117-169). These temporary PTC provisions will expire at the end of tax year 2025.[3]

This report provides background on the PTC and illustrates possible subsidy amounts for hypothetical households using actual 2023 QHP premiums. The hypothetical examples vary in demographic and other factors that directly affect PTC calculations; such factors include income, age, geographic location, and statutory provisions. The report concludes with a discussion that considers the subsidy estimates in a broader context, including interactions with other sources of coverage, actual income distribution, and premium trends.

Background

Eligibility

To be eligible to receive the PTC, households (individuals or families) must meet income and other eligibility criteria. Under ACA-only rules, income eligibility was limited to households with annual incomes at or above 100% of the federal poverty level (FPL) but not more than 400% of FPL.[4] Under ARPA and IRA rules, PTC income eligibility applies to annual household incomes at or above 100% of FPL; currently, there is no maximum income limit.[5]

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[1] *Exchanges* are marketplaces that offer private health plans to qualified individuals and small businesses. The Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended) specifically required exchanges to offer insurance options to individuals and to small businesses, so exchanges are structured to assist these two different types of customers. The premium tax credit (PTC) may be applied only to qualified health plans offered through exchanges that serve individuals and families (i.e., *individual exchanges*).

[2] Individuals may choose to receive advanced payments of the PTC on a monthly basis to coincide with the payment of insurance premiums. Centers for Medicare & Medicaid Services (CMS), *Effectuated Enrollment: Early 2023 Snapshot and Full Year 2022 Average*, August 11, 2023, https://www.cms.gov/files/document/early-2023-and-full-year-2022-effectuated-enrollment-report.pdf.

[3] For a comprehensive discussion of PTC eligibility, subsidy calculation, and other rules, see CRS Report R44425, *Health Insurance Premium Tax Credit and Cost-Sharing Reductions*.

[4] The poverty guidelines vary by family size and by whether an individual (or family) resides in the 48 contiguous states and the District of Columbia, Alaska, or Hawaii. See U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, "Frequently Asked Questions Related to the Poverty Guidelines and Poverty," https://aspe.hhs.gov/frequently-asked-questions-related-poverty-guidelines-and-poverty#programs.

[5] Section 9661 of the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) expanded eligibility for the PTC by temporarily eliminating the phaseout for households with annual incomes above 400% of the federal poverty level (continued...)

Table 1 displays the income levels equivalent to 100% of FPL, for the location and size of family, that corresponded to the eligibility criteria for the PTC in 2023 (using poverty guidelines updated by the Department of Health and Human Services [HHS] for 2022[6]).

Table 1. Income Levels Applicable to Eligibility for the Premium Tax Credit (PTC) for 2023, by Selected Family Sizes

(based on 2022 HHS poverty guidelines)

Number of Persons in Family	Income Levels Equivalent to 100% of FPL		
	48 Contiguous States and DC	Alaska	Hawaii
1	$13,590	$16,990	$15,630
2	$18,310	$22,890	$21,060
3	$23,030	$28,790	$26,490
4	$27,750	$34,690	$31,920

Source: Department of Health and Human Services (HHS), "Annual Update of the HHS Poverty Guidelines," 87 *Federal Register* 3315, January 21, 2022, https://www.govinfo.gov/content/pkg/FR-2022-01-21/pdf/2022-01166.pdf.

Notes: For 2023, the income levels used to determine PTC eligibility and amounts are based on 2022 HHS poverty guidelines. The poverty guidelines are updated annually for inflation. DC = District of Columbia; FPL = federal poverty level.

Calculation of Subsidy Amount

The dollar amount of the PTC is based on a statutory formula and varies for each household. Calculation of the credit is based on the annual income of the household (i.e., taxpayer(s) and tax dependents), the premium for the QHP in which the individual (and any dependents) enrolls through an individual exchange, and other factors. For the sake of simplicity, the following formula illustrates the credit calculation:

Maximum Credit Amount = Benchmark Plan Premium – Required Premium Contribution

Premiums for a given QHP offered through an individual exchange are allowed to vary based on specific factors related to the individual (or family) seeking health insurance, as long as such variation is not in violation of state and federal law. Individual exchange QHPs must use adjusted (or modified) community rating rules to determine premiums. Adjusted community rating prohibits the use of health factors in the determination of premiums but allows premium variation based on other factors. Federal law allows QHP premiums to vary based on the following four factors: size of household enrolling in a QHP, geographic rating area, tobacco use, and age. (State law may further limit premium variation.) In other words, individuals (or families) enrolling in the same QHP may be charged different premium amounts.

(FPL). Elimination of the phaseout applied to tax years 2021 and 2022 under ARPA. Section 12001 of the enacted budget reconciliation measure commonly referred to as the Inflation Reduction Act (IRA; P.L. 117-169) extended the ARPA provision through the end of tax year 2025. If the ARPA/IRA provisions were to expire, the ACA-only income eligibility phaseout would resume beginning in tax year 2026.

[6] The poverty guidelines are updated annually at the beginning of the year. However, premium credit calculations are based on the prior year's guidelines to provide individuals with timely information as they compare and enroll in exchange plans during the open enrollment period (which occurs prior to the beginning of the plan year).

For purposes of this report, *benchmark plan* refers to the second-lowest-cost silver plan in the household's rating area, per statute.[7] *Required premium contribution* refers to the amount that a PTC-eligible household may pay toward the exchange premium. The required premium contribution is capped at a specified percentage of household income (*applicable percentage*), with such income measured relative to FPL (see **Table 1**). As household income increases, the applicable percentage used to determine a household's required premium contribution generally also increases. The required premium contribution percentages typically are updated through guidance issued by the Internal Revenue Service (IRS) on an annual basis (see **Figure 1** for applicable percentages for 2023 under ACA-only rules).[8] However, ARPA and IRA temporarily replaced those percentages for tax years 2021-2025 (see **Figure 2**).[9]

In 2023, the required premium contributions for PTC-eligible households with annual incomes between 100% and 150% of FPL were 0% of income. In other words, such households would receive full premium subsidies toward the cost of enrolling in benchmark plans. Eligible households with higher incomes may receive partial subsidies. For all eligible households with annual incomes at or above 400% of FPL, each such household would be required to spend up to 8.5% of its income (prorated monthly) before receiving any credit. For some higher-income households, this may result in receiving no credit despite being eligible. Beginning in 2026, the applicable percentages of income used in the credit formula will revert to the annual adjustment process established under the ACA.

[7] 26 U.S.C. §36B(b)(2)(B)(i)

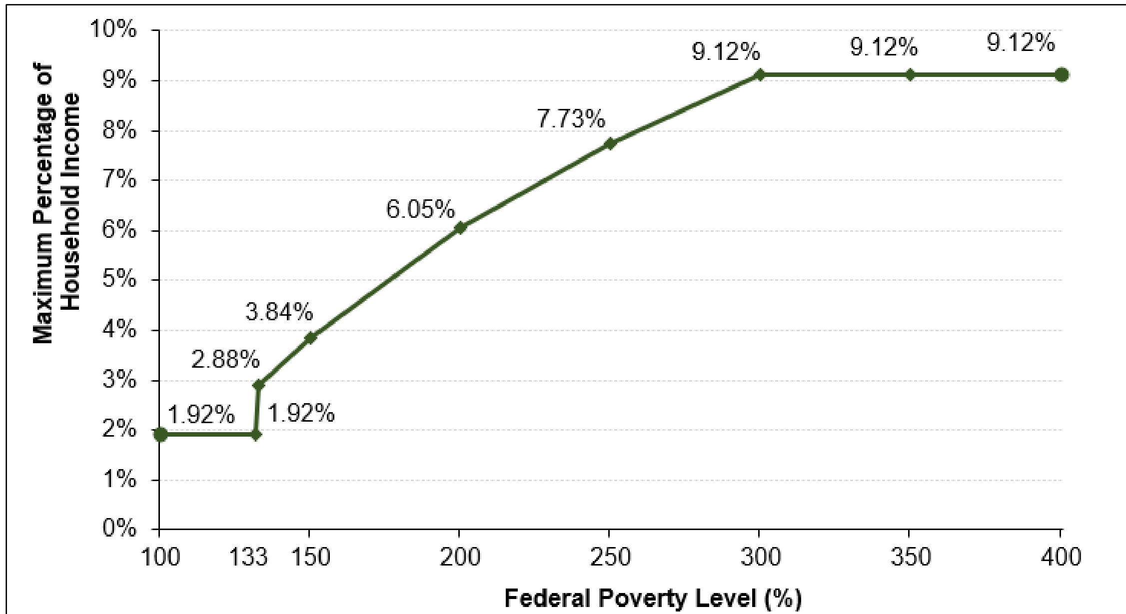
Most health plans sold through ACA-established exchanges are required to meet actuarial value (AV) standards, among other requirements. AV is a summary measure of a plan's generosity, expressed as the percentage of medical expenses estimated to be paid by the insurer for a standard population and set of allowed charges. The higher the percentage, the lower the cost sharing, on average, for the population. AV is not a measure of plan generosity for an enrolled individual or family, nor is it a measure of premiums or benefits packages. An exchange plan that is subject to the AV standards is given a precious metal designation: platinum (AV of 90%), gold (80%), silver (70%), or bronze (60%).

[8] These percentages were issued prior to extension of the enhanced PTC provisions under the IRA.

[9] See ARPA §9661. The new percentages applied to the PTC for tax years 2021 and 2022. Under §12001 of the IRA, these same percentages apply through the end of tax year 2025. Beginning in tax year 2026, the annual update to these percentages will revert to ACA-only statute and applicable Internal Revenue Service (IRS) guidance.

Figure 1. Cap on Required Premium Contributions for Individuals Who Are Eligible for the Premium Tax Credit in 2023, ACA-Only Rules

(cap varies by income, as measured relative to the federal poverty level)

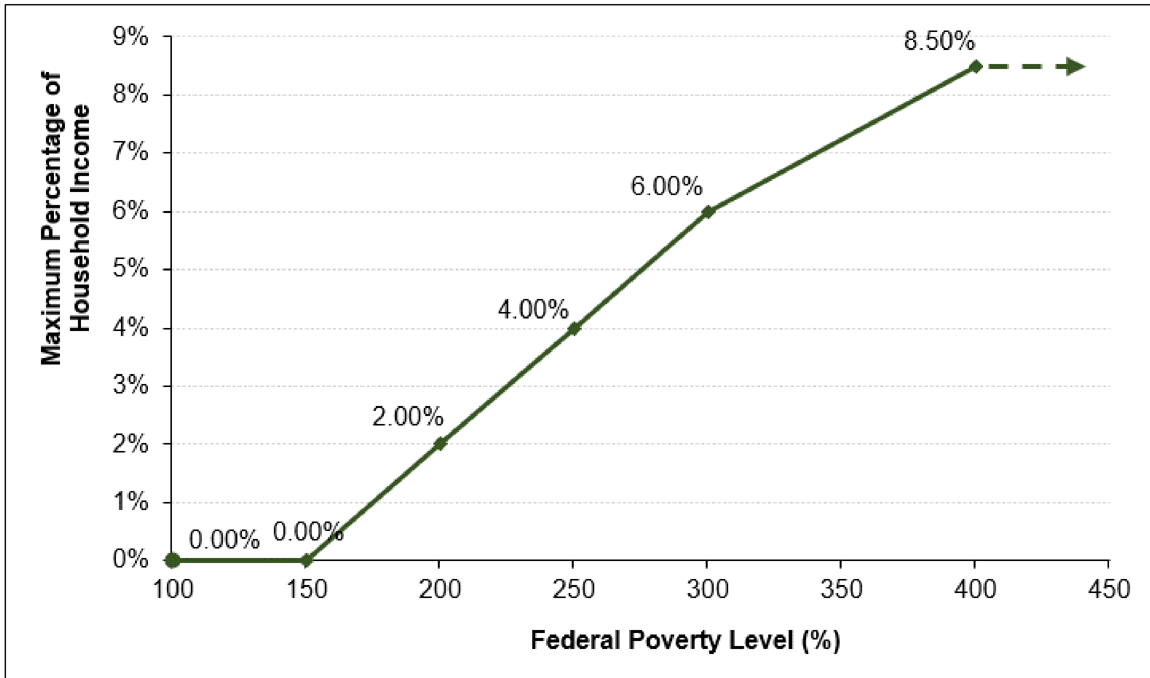


Source: Internal Revenue Service (IRS), Rev. Proc. 2022-34, https://www.irs.gov/pub/irs-drop/rp-22-34.pdf.

Notes: The cap assumes that the eligible individual enrolls in the benchmark plan (second-lowest-cost silver plan) used to calculate premium credit amounts. If the individual enrolled in an exchange plan that was more expensive than the benchmark plan, the individual would be responsible for paying any premium amount that exceeded the calculated credit amount. ACA = Patient Protection and Affordable Care Act (P.L. 111-148, as amended).

Figure 2. Cap on Required Premium Contributions for Individuals Who Are Eligible for the Premium Tax Credit in 2023, ARPA and IRA Rules

(cap varies by income, as measured relative to the federal poverty level)



Source: 26 U.S.C. §36B(b)(3)(A)(iii)

Notes: The cap assumes that the eligible individual enrolls in the benchmark plan (second-lowest-cost silver plan) used to calculate premium credit amounts. If the individual enrolled in an exchange plan that was more expensive than the benchmark plan, the individual would be responsible for paying any premium amount that exceeded the calculated credit amount. ARPA = American Rescue Plan Act of 2021 (P.L. 117-2); IRA = the enacted budget reconciliation measure commonly referred to as the Inflation Reduction Act (P.L. 117-169).

Although the maximum credit amount for a given individual is calculated as the (non-zero) difference between the benchmark plan premium and the required contribution, the individual may choose to enroll in any QHP in the applicable rating area (i.e., a benchmark or non-benchmark plan). Therefore, the premium of the plan in which the individual enrolls may affect the final PTC amount, the final premium contribution amount, or both.

For example, an individual may choose to enroll in the highest-cost QHP, which may have a premium greater than the benchmark plan premium. For such an individual, the premium contribution would include not only the calculated required contribution amount (based on household income and the applicable percentage) but also the premium difference between the benchmark plan and the highest-cost QHP. Therefore, by choosing to enroll in a higher-premium plan, the individual's total premium contribution is greater than it would have been had he or she enrolled in the benchmark plan. The reverse applies for an individual who enrolls in a QHP with a premium that is lower than the benchmark plan. The calculated PTC amount is subtracted from the lower premium, leaving a remainder that is smaller than the amount the individual would have had to pay had he or she enrolled in the benchmark plan (unless the individual already received a full subsidy). By choosing to enroll in a lower-premium plan, the individual's total premium contribution is smaller in most instances.

Premium Tax Credit Estimates

The following figures illustrate maximum PTC amounts for hypothetical households by income levels measured relative to the federal poverty level. (For simplicity purposes, each hypothetical household comprises one person.[10]) The hypothetical individuals vary by selected ages and geographic locations to illustrate the variation in PTC amounts due to changes in underlying premiums.[11] The individual QHP premium amounts used in these hypothetical scenarios are actual 2023 premiums.[12] In addition, the subsidy estimates assume the hypothetical individuals are eligible for the PTC; however, not all actual households that meet the income criteria are eligible for the PTC.[13]

Hypothetical Example 1

Figure 3 illustrates maximum PTC amounts for a 27-year-old individual residing in Lebanon, KS, the geographic center of the continental United States. Lebanon is in Kansas rating area 4 (KS-04); therefore, the premium used in calculating PTC amounts is the premium for the benchmark plan offered in KS-04.[14]

As explained above, PTC-eligible households with annual incomes between 100% and 150% of FPL receive full premium subsidies to enroll in the benchmark plan in their local area. For the hypothetical individual referenced in **Figure 3**, the *monthly* premium for the benchmark plan is $427.86; therefore, the maximum *annual* PTC is $5,134.32.[15] As income increases, the required premium contribution generally increases. Consequently, the maximum PTC amount generally decreases further up the income scale, eventually reaching zero dollars. In other words, although there is no upper income limit under current law, there is an effective limit resulting from application of the PTC formula.

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[10] See the "Effect on Eligible Population" section of this report for a discussion about family size implications for PTC amounts.

[11] For a CRS-developed tool designed to display how changes to certain statutory parameters of the PTC would affect the credit amount for taxpayers with different income, family status, and geographic characteristics, see "2023 Premium Tax Credit Tool," February 26, 2024, by Ryan Rosso (available from the author upon request).

[12] CRS used HIX Compare data for all PTC calculations in this report. All HIX Compare data elements are actual values; relevant values were applied to hypothetical individuals to generate PTC amounts. Robert Wood Johnson Foundation, "HIX Compare Dataset, Individual Market," 2023, https://hix-compare.org/individual-markets.html.

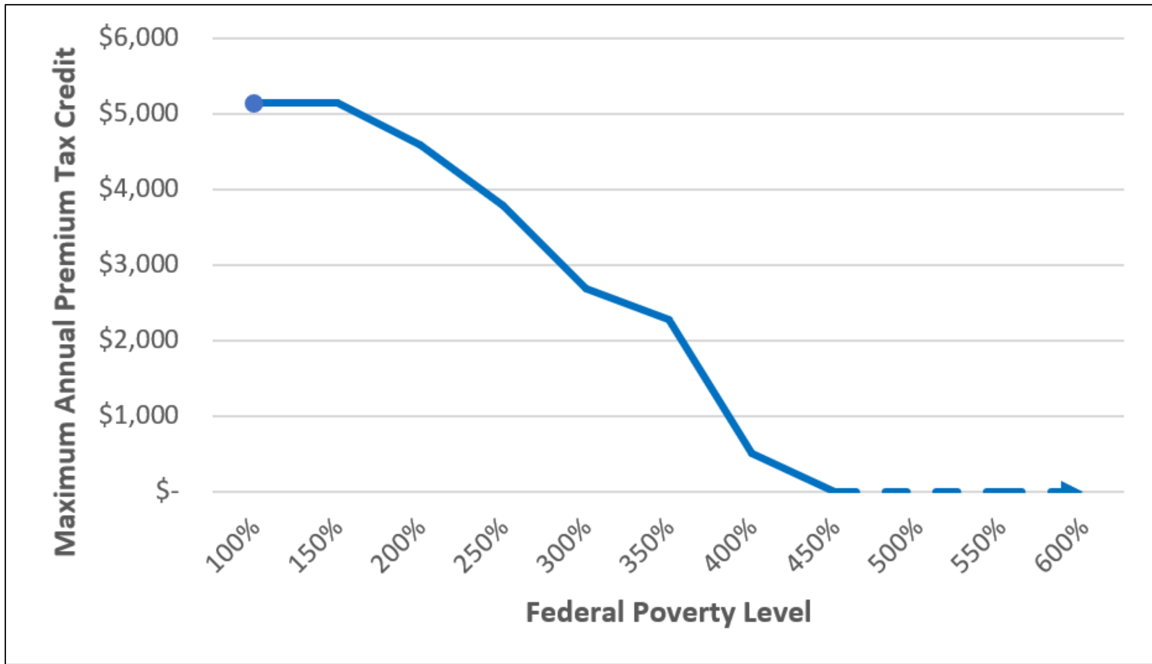
[13] For a full discussion of the PTC eligibility criteria, see the "Eligibility" section in CRS Report R44425, *Health Insurance Premium Tax Credit and Cost-Sharing Reductions*.

[14] Exchange plans may vary premiums based on rating area. States are required to establish one or more geographic rating areas within the state for the purposes of this provision. The rating areas must be based on one of the following geographic boundaries: (1) counties, (2) three-digit zip codes, or (3) metropolitan statistical areas (MSAs) and non-MSAs. Center for Consumer Information and Insurance Oversight, "Market Rating Reforms," https://www.cms.gov/cciio/programs-and-initiatives/health-insurance-market-reforms/state-gra.

[15] The IRS form used to claim the PTC (for individual income tax purposes) incorporates rounding conventions not reflected in the maximum PTC amounts calculated in this report.

Figure 3. Maximum Annual Premium Tax Credit for a Hypothetical Eligible Individual, by Annual Income, 2023

(27-year-old resident in Lebanon, KS)



Sources: CRS calculations based on 26 U.S.C. §36B(b)(3)(A)(iii) and HIX Compare Individual Market data posted by the Robert Wood Johnson Foundation. The dataset is available at https://hix-compare.org/. HHS, "Annual Update of the HHS Poverty Guidelines," 87 *Federal Register* 3315, January 21, 2022, https://www.govinfo.gov/content/pkg/FR-2022-01-21/pdf/2022-01166.pdf.

Notes: Annual income is measured relative to the federal poverty level. PTC calculations for 2023 use the 2022 poverty guidelines. The PTC calculations use 2023 premiums for Kansas rating area 4, which includes Lebanon. The maximum PTC amounts are based on the premium for the applicable benchmark plan. The dotted line approximates when the PTC is zero dollars at the applicable income levels indicated in the figure and as income increases above those levels.

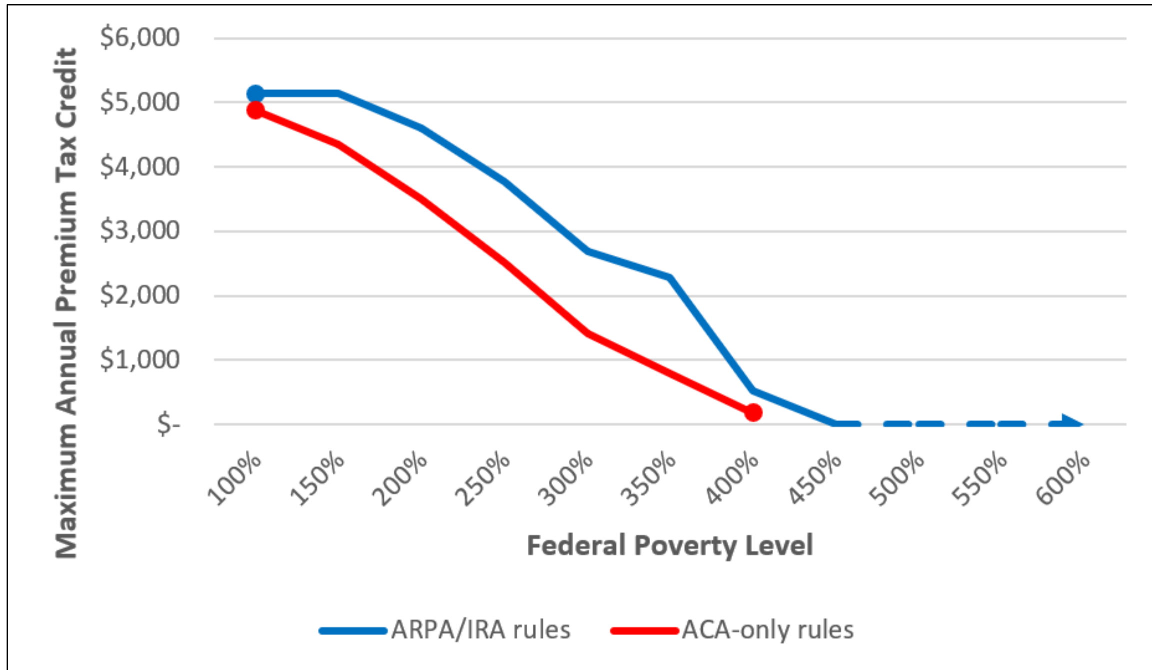
Hypothetical Example 2

Figure 4 illustrates the difference in PTC amounts—for the same hypothetical individual as in **Figure 3**—using different rules for calculating required premium contributions: ACA-only rules (as illustrated in **Figure 1**) and ARPA/IRA rules (as illustrated in **Figure 2**). Because the premium contributions under ARPA/IRA rules are smaller than the premium contributions under ACA-only rules, the maximum PTC amounts at each applicable income level are greater under ARPA/IRA rules (until PTCs reach zero dollars). This has a direct impact on federal spending, given that the PTC is financed through a permanent appropriation.[16]

[16] 31 U.S.C. §1324

Figure 4. Maximum Annual Premium Tax Credit for a Hypothetical Eligible Individual, by Annual Income, Comparing ACA-Only and ARPA/IRA Rules, 2023

(27-year-old resident in Lebanon, KS)



Sources: CRS calculations based on IRS, Rev. Proc. 2022-34, https://www.irs.gov/pub/irs-drop/rp-22-34.pdf.26; U.S.C. §36B(b)(3)(A)(iii); and HIX Compare Individual Market data posted by the Robert Wood Johnson Foundation (available at https://hix-compare.org/). HHS, "Annual Update of the HHS Poverty Guidelines," 87 *Federal Register* 3315, January 21, 2022, https://www.govinfo.gov/content/pkg/FR-2022-01-21/pdf/2022-01166.pdf.

Notes: Annual income is measured relative to the federal poverty level. PTC calculations for 2023 use the 2022 poverty guidelines. The PTC calculations use 2023 premiums for Kansas rating area 4, which includes Lebanon. The maximum PTC amounts are based on the premium for the applicable benchmark plan. The dotted line approximates when the PTC is zero dollars at the applicable income levels indicated in the figure and as income increases above those levels.

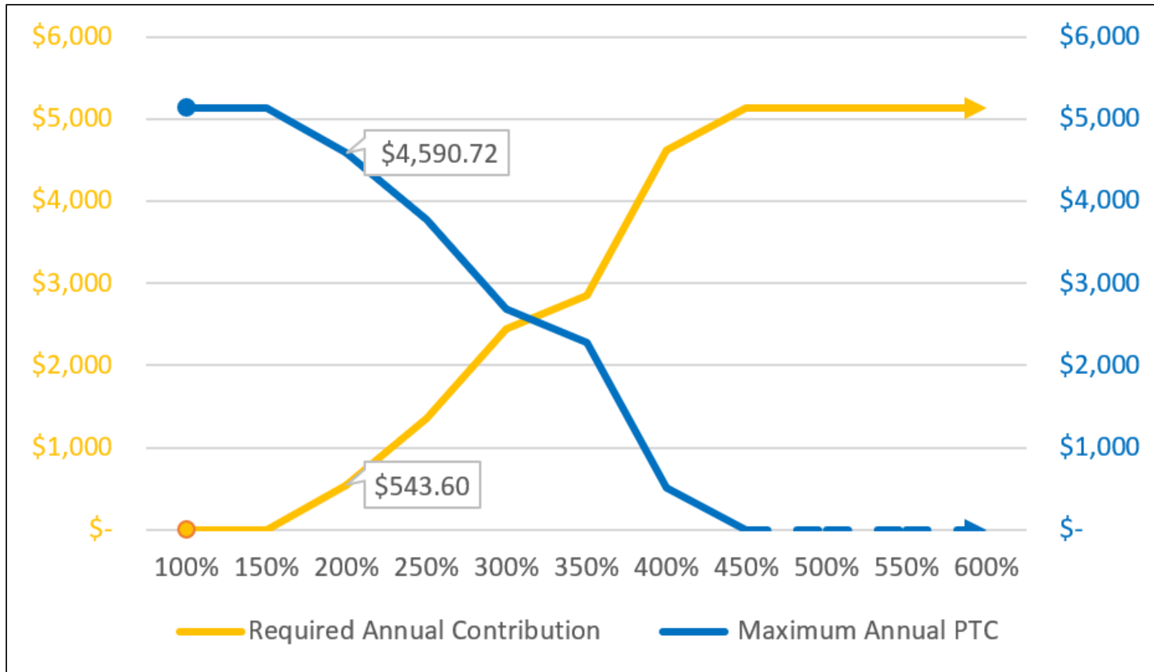
Hypothetical Example 3

Figure 5 illustrates the inverse relationship between PTCs and premium contributions. As illustrated in **Figure 3**, the maximum annual PTC for the hypothetical individual is $5,134.32. The same individual is referenced in the figure below. Given the PTC amount is the (non-zero) difference between the benchmark plan premium and the required premium contribution, the larger the required contribution, the smaller the PTC.

With respect to **Figure 5**, the benchmark plan premium ($5,134.32) serves as the maximum dollar amount for the sum of the PTC and required contribution (based on the PTC formula). Consider the hypothetical individual in this figure with income at 200% of FPL. According to **Table 1** and **Figure 2**, this person would have an annual income of $27,180 and contribute two percent of income towards the benchmark plan premium. Two percent of annual income would equal $543.60 for the required contribution (see orange line in the figure), leaving 4,590.72 for the maximum annual PTC (see blue line in the figure). This same calculation process may be applied at any income level to determine the required contribution and maximum PTC, given the inverse relationship between these two amounts.

Figure 5. Maximum Annual Premium Tax Credit and Maximum Annual Required Contribution for a Hypothetical Eligible Individual, by Annual Income, 2023

(27-year-old resident in Lebanon, KS)



Sources: CRS calculations based on 26 U.S.C. §36B(b)(3)(A)(iii) and HIX Compare Individual Market data posted by the Robert Wood Johnson Foundation (dataset available at https://hix-compare.org/). HHS, "Annual Update of the HHS Poverty Guidelines," 87 *Federal Register* 3315, January 21, 2022, https://www.govinfo.gov/content/pkg/FR-2022-01-21/pdf/2022-01166.pdf.

Notes: Annual income is measured relative to the federal poverty level. PTC calculations for 2023 use the 2022 poverty guidelines. The PTC calculations use 2023 premiums for Kansas rating area 4, which includes Lebanon. The maximum PTC amounts and required contributions are based on the premium for the applicable benchmark plan. The dotted line approximates when the PTC is zero dollars at the applicable income levels indicated in the figure and as income increases above those levels.

Hypothetical Example 4

Figure 6 illustrates the impact of limited age rating on PTC amounts. As explained above, factors that affect the premium will change the premium credit amount; such factors may include age, family size, and geographic location. For example, two adults at different ages face different premiums for the same individual QHP (if allowed under state law), reflecting the documented phenomenon that as individuals age, health care spending generally increases.[17] However, federal law limits the extent to which plans may age-rate individual insurance.[18]

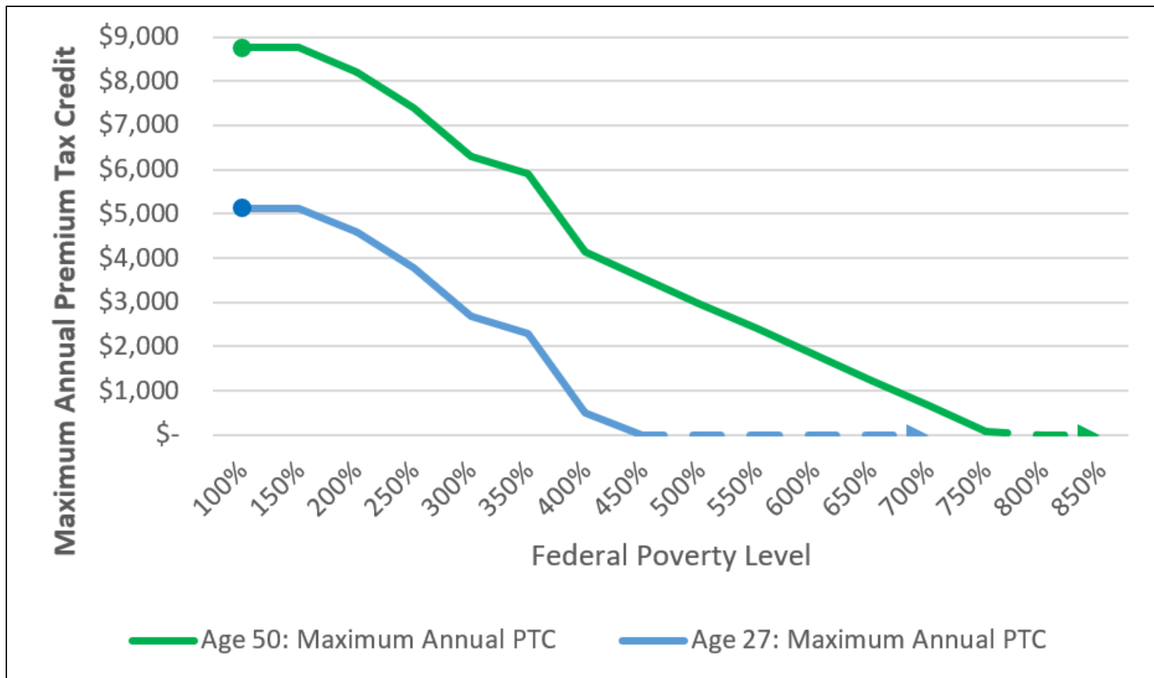
[17] For example, see Doug Norris et al., "The Old and the Beautiful," *Actuary*, June 2017, https://www.theactuarymagazine.org/the-old-and-the-beautiful.

[18] Under federal law, plans may vary premiums based on age but such variation may not exceed a 3:1 ratio for adults. All states must use a uniform age rating curve to specify the rates across ages (with exceptions for states that implemented their own age rating standards). For plan years beginning on or after January 1, 2018, plans must use one age band for all individuals aged 0-14 years, one-year age bands for individuals aged 15-63 years, and one age band for all individuals aged 64 years and older.

Figure 6 compares the PTC amounts for individuals who reside in the same rating area but are different ages: 27 years and 50 years. Given that PTCs limit consumer premium spending according to income, the PTC difference at a given income level represents premium variation due to age differences. Therefore, the PTC for the 50-year-old exceeds the PTC for the 27-year-old at every applicable income level (until PTCs for both ages reach zero dollars). Moreover, the credit amount zeroes out at different income levels, as there is no upper income limit under current PTC rules.

Figure 6. Maximum Annual Premium Tax Credit for Hypothetical Eligible Individuals, by Selected Ages and Annual Income, 2023

(27-year-old and 50-year-old residents in Lebanon, KS)



Sources: CRS calculations based on 26 U.S.C. §36B(b)(3)(A)(iii) and HIX Compare Individual Market data posted by the Robert Wood Johnson Foundation (dataset available at https://hix-compare.org/). HHS, "Annual Update of the HHS Poverty Guidelines," 87 *Federal Register* 3315, January 21, 2022, https://www.govinfo.gov/content/pkg/FR-2022-01-21/pdf/2022-01166.pdf.

Notes: Annual income is measured relative to the federal poverty level. PTC calculations for 2023 use the 2022 poverty guidelines. The PTC calculations use 2023 premiums for Kansas rating area 4, which includes Lebanon. The maximum PTC amounts are based on the premium for the applicable benchmark plan. The dotted lines approximate when the PTC is zero dollars at the applicable income levels indicated in the figure and as income increases above those levels.

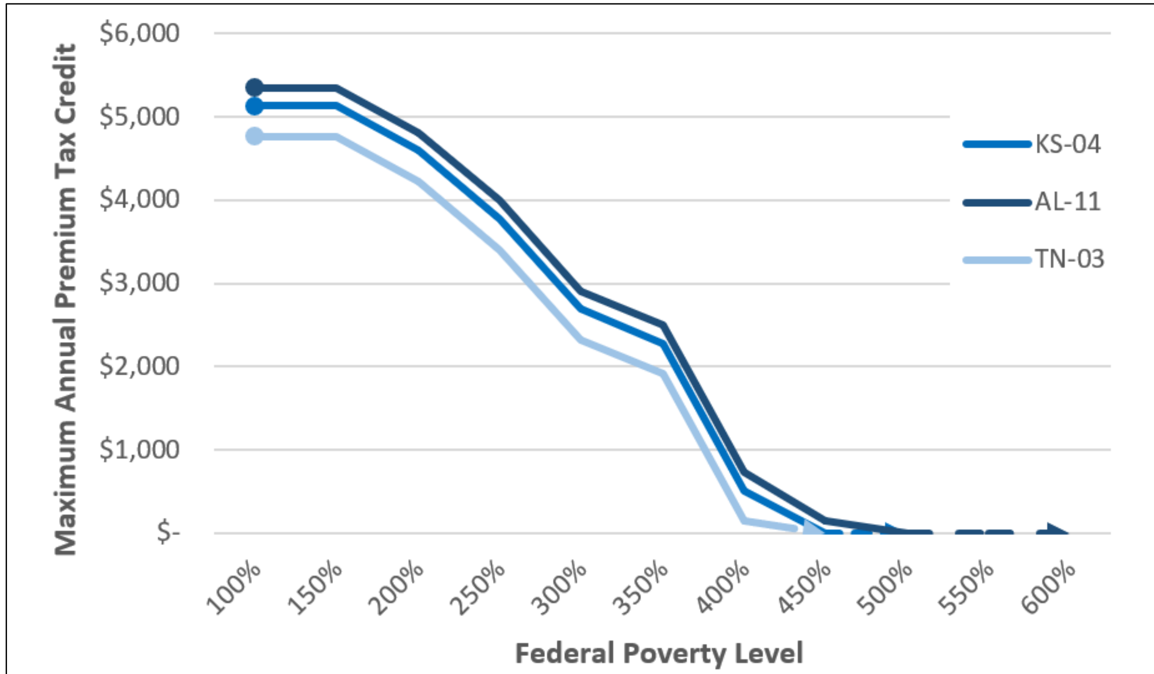
Hypothetical Example 5

Figure 7 illustrates how geographic location can vary PTC amounts. Exchange plan premiums vary within and across states as long as such variation does not violate state and federal law. **Figure 7** illustrates PTC amounts for the same health plan (Clear Silver offered by Ambetter) that is the 2023 benchmark plan in three rating areas: Kansas rating area 4 (KS-04), Alabama rating

area 11 (AL-11), and Tennessee rating area 3 (TN-03).[19] The premiums for this plan (for a 27-year-old individual) in these rating areas are as follows: $427.86 (KS-04); $445.90 (AL-11); and $396.94 (TN-03). As such, the PTC amount differs across the rating areas at every applicable income level (until PTCs for the rating areas reach zero dollars). Moreover, the PTCs zero out at different income levels across the rating areas.

Figure 7. Maximum Annual Premium Tax Credit for Hypothetical Eligible Individuals, by Selected Locations and Annual Income, 2023

(27-year-old residents in three geographic areas)



Sources: CRS calculations based on 26 U.S.C. §36B(b)(3)(A)(iii) and HIX Compare Individual Market data posted by the Robert Wood Johnson Foundation (dataset available at https://hix-compare.org/). HHS, "Annual Update of the HHS Poverty Guidelines," 87 *Federal Register* 3315, January 21, 2022, https://www.govinfo.gov/content/pkg/FR-2022-01-21/pdf/2022-01166.pdf.

Notes: Annual income is measured relative to the federal poverty level. PTC calculations for 2023 use the 2022 poverty guidelines. KS-04, AL-11, and TN-03 refer to Kansas rating area 4, Alabama rating area 11, and Tennessee rating area 3, respectively. The PTC calculations use 2023 premiums for each rating area. The maximum PTC amounts are based on the premium for the applicable benchmark plan. The dotted lines approximate when the PTC is zero dollars at the applicable income levels indicated in the figure and as income increases above those levels.

[19] Although Ambetter's Clear Silver plan serves as the benchmark in the three rating areas examined, there likely will be differences that may result in premium variation across those areas. Differences may include provider network, state-specific benefit mandates, exchange user fees, and other factors that may affect premiums.

Policy Considerations of Expanded Premium Tax Credit Provided by ARPA/IRA Provisions

Income Distribution and Ineligibility

As indicated in the illustrative figures discussed above, the PTC eligibility and formula rules that applied in 2023 allowed certain households with higher incomes (compared with those eligible under ACA-only rules) to be eligible to receive subsidized health insurance.

Although the purpose of the ARPA and IRA PTC provisions was to expand eligibility and provide enhanced subsidies, these provisions interact with other eligibility factors that limit the extent to which higher-income households may qualify for the PTC. This interaction underscores the importance of considering not only income eligibility under ARPA/IRA but the full set of PTC eligibility criteria (e.g., access to other sources of health coverage) that may render an individual ineligible for the PTC.

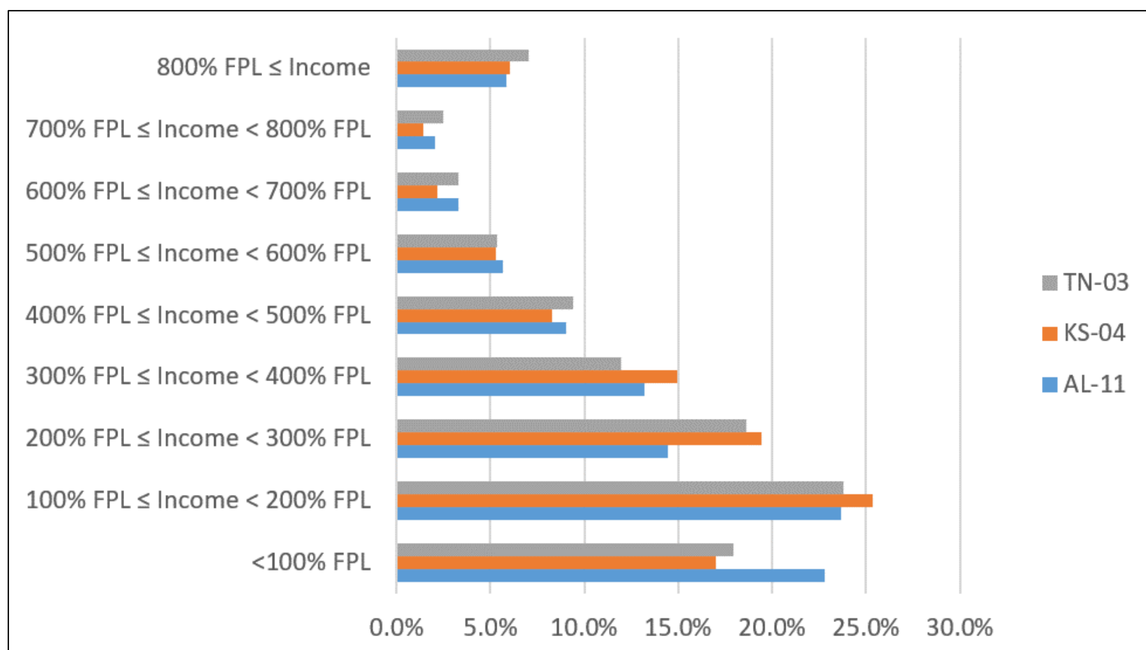
It is instructive to first consider the income eligibility criteria in the context of actual income distribution of one-person households in the geographic areas of interest. As reported under the American Community Survey (ACS), nearly three out of four one-person households had incomes below 400% of FPL in 2022 (in the three rating areas illustrated in the preceding figure); see **Figure 8**.[20] Moreover, approximately half of one-person households in those areas had incomes around 250% of FPL.[21]

[20] CRS estimated income distributions for the three rating areas using data from the American Community Survey (ACS); U.S. Census Bureau, ACS 2018-2022 5-Year Public Use Microdata Sample (PUMS) files, https://www.census.gov/programs-surveys/acs/data.html. Geographic correspondence files were generated using Geocorr, an application hosted by the Missouri Census Data Center at https://mcdc.missouri.edu/applications/geocorr.html.

[21] The 2022 median income levels for Kansas rating area 4, Alabama rating area 11, and Tennessee rating area 3 were equivalent to 242%, 233%, and 255% of FPL, respectively (using 2021 poverty guidelines). CRS calculated this data using 2021 FPL and 2022 income to align with PTC criteria as detailed in the instructions for Form 8962. See IRS, "Instructions for Form 8962 (2023)," https://www.irs.gov/instructions/i8962.

Figure 8. Annual Income Distribution of One-Person Households, 2022

(selected geographic areas)



Source: CRS computations using data from the American Community Survey (ACS); U.S. Census Bureau, ACS 2018-2022 5-Year Public Use Microdata Sample (PUMS) files, https://www.census.gov/programs-surveys/acs/data.html; and HHS, "Annual Update of the HHS Poverty Guidelines," 86 *Federal Register* 7732, February 1, 2021, https://www.govinfo.gov/content/pkg/FR-2021-02-01/pdf/2021-01969.pdf.

Notes: FPL = federal poverty level. The 2021 poverty guidelines were used to determine FPL, in keeping with PTC rules. KS-04, AL-11, and TN-03 refer to Kansas rating area 4, Alabama rating area 11, and Tennessee rating area 3, respectively. Each of these rating areas comprises multiple counties. ACS PUMS files include only one substate geographic identifier, the public use microdata area (PUMA); these are statistical geographic areas of at least 100,000 people located within a single state. CRS generated geographic correspondence files to identify the PUMAs, which correspond to the counties that comprise each of the three rating areas. Income was adjusted to 2022 levels using the ACS income adjustment variable.

Although the income distribution data indicate a nontrivial share of households with higher incomes, such data do not account for access to other sources of health coverage that would make these households ineligible for the PTC. For example, higher-income households generally have access to employer-provided health benefits. According to data published by the Bureau of Labor Statistics (BLS), 94% of nonfederal government and private-sector workers in the highest quartile of average hourly wages are offered health benefits by their employers, compared with 43% of workers in the lowest quartile.[22] The availability of employer-sponsored health benefits generally would make these workers ineligible for the PTC (with exceptions).[23] Although such workers

[22] Bureau of Labor Statistics, "Employee Benefits in the United States," March 2023, https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2023.htm. Although wages are not equivalent to income, wages constitute a significant share of income and may serve as an imperfect, but not inappropriate, proxy for purposes of this discussion. For additional information concerning wage income, see Erica York and Michael Hartt, "Sources of Personal Income, Tax Year 2020," Tax Foundation, June 28, 2023, https://taxfoundation.org/data/all/federal/personal-income-tax-returns-pi-data/.

[23] Although the offer of employer health benefits may make an employee ineligible for the PTC (unless such employee qualifies for an exception), that employee's family may be eligible for the PTC under certain circumstances. For a discussion of potential family eligibility, see the discussion related to the "family glitch" in CRS Report R44425, *Health Insurance Premium Tax Credit and Cost-Sharing Reductions*.

may not claim the tax credit, workers who have employer-provided health coverage receive other substantial tax benefits.[24]

Effect on Eligible Population

The income distribution of one-person households and employer offers of health coverage raises a question about what effect the ARPA/IRA rules have had on the population that is eligible for the PTC. The interaction of the PTC's income-related eligibility requirements and other factors results in a subsidized population that generally falls within lower to middle income brackets, aligning with pre-ARPA/IRA eligibility criteria. For instance, the survey data illustrated in **Figure 8** also include data on households with subsidized, directly purchased coverage.[25] Of households consisting of one-person, non-elderly adults that only had subsidized, directly purchased coverage, approximately 75% nationwide had incomes below 400% of FPL in 2022.[26] There are households with incomes above 400% of FPL that may receive the credit, but the PTC formula requires sizeable premium contributions from such households. For this population, any PTC received would indicate that these households already contributed 8.5% of their income toward the benchmark plan premium.

With respect to families, a larger household size has implications for premiums, income, PTC eligibility, and PTC amounts. As discussed in the "Eligibility" section of this report, the premium for a given health plan varies based on family size (among other factors), reflecting the common insurance practice of charging a larger premium for a household consisting of more than one person (e.g., family coverage). Household income would include income from all members of a tax-filing unit (e.g., working child who is a tax dependent). Household size also affects FPL since the HHS poverty guidelines increase as family size grows.[27] For households with employed individuals, access to employer-provided health benefits (to one or more individuals) has implications for PTC eligibility, as discussed above concerning one-person households. Taken together, a given income level may result in differences in PTC eligibility and PTC amounts depending on household size. However, just as it is with one-person households, PTC-eligible families with incomes at or above 400% of FPL would contribute 8.5% of their income towards benchmark plan premiums with any remining amount covered by the PTC.

Differences in PTC Amounts

The PTC amounts that eligible households with annual incomes at or above 400% of FPL receive would be less than the amounts received by those at lower income levels (all else equal). For

[24] Workers and their families that receive health-related contributions from employers receive tax benefits in the form of a tax exclusion; that is, employer contributions toward health insurance premiums and employer reimbursements toward health care generally are excludable from employee wages. Because the employer tax exclusion reduces taxable income, taxpayers in higher tax brackets benefit more from the exclusion than taxpayers in lower brackets. For additional information, see U.S. Congress, Senate Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, 117th Cong., 2nd sess., December 2022, S. Prt. 117-24.

[25] CRS computations using ACS 2022 1-Year Public Use Microdata Sample. Beginning in 2022, ACS asks all survey respondents who indicate they directly purchase coverage from an insurance company whether they have a subsidy.

[26] In 2022, 400% of FPL was equivalent to $51,520 for PTC purposes, using the poverty guidelines applicable to the contiguous United States in 2021. *Non-elderly adults* are those between the ages of 21 and 64. CRS excluded those at and over the age of 65 because Medicare eligibility excludes an individual from eligibility for the tax credit. CRS excluded those below the age of 21 to align with the age rating of individual health insurance policies for adults, as illustrated in "Hypothetical Example 4" in this report.

[27] See Office of the Assistant Secretary for Planning and Evaluation, HHS, "Frequently Asked Questions Related to the Poverty Guidelines and Poverty," https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines/frequently-asked-questions-related-poverty-guidelines-poverty.

example, eligible households with incomes up to 150% of FPL receive full premium subsidies toward benchmark plans. Such a difference in PTC amounts is illustrated in **Figure 3** for a 27-year-old residing in Lebanon, KS in 2023. This hypothetical individual with income at 100% of FPL would have received a PTC that covered the entire monthly premium amount for the benchmark plan in that area, $427.86. In contrast, a 27-year-old with income at 425% of FPL would have received a monthly credit of approximately $18.

Nonetheless, credits may be available to households with very high incomes given the lack of an income limit. This is particularly relevant under age-rating rules; for example, see the potential availability of credits for a hypothetical 50-year-old individual with increasing annual income compared to a 27-year-old individual in **Figure 6**. The potential availability of tax credits to some higher-income households speaks to the persistent phenomenon of high health insurance premiums.

Premium Growth

The steady growth in premiums is well documented, with studies primarily focused on the primary source of private health coverage in the United States: employer-sponsored health benefits.[28] With enactment of the ACA, greater attention has been paid to individual health insurance, particularly with respect to premium trend.[29] One study found that the median annual premium for individual policies grew 59% from 2011 to 2021.[30] For individual exchange plans specifically, "premiums [rose] steeply from 2016-2018" but "held mostly steady from 2019 to 2020."[31] More recent analyses found single-digit premium increases for exchange plans.[32] Overall, premium growth typically outpaces both wage growth and inflation, with implications for individuals and families seeking health coverage.[33] To the extent that the PTC does not have

[28] For example, see G. Edward Miller and Patricia Keenan, "Statistical Brief #553: Trends in Health Insurance at Private Employers, 2008-2022," Agency for Healthcare Research and Quality, October 2023, https://meps.ahrq.gov/data_files/publications/st553/stat553.shtml; Kaiser Family Foundation (KFF), "2023 Employer Health Benefits Survey," October 18, 2023, https://www.kff.org/health-costs/report/2023-employer-health-benefits-survey/; and Kurt Hager, Ezekiel Emanuel, and Dariush Mozaffarian, "Employer-Sponsored Health Insurance Premium Cost Growth and Its Association With Earnings Inequality Among U.S. Families," *JAMA Network Open*, January 16, 2024, https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2813927.

[29] Any inferences drawn from individual market premium trend data must take into account the fundamental changes to this market segment over the years; many of these changes directly affect premiums. Such changes may be multidimensional and rooted in various factors: federal market reforms (e.g., essential health benefit requirements), state regulatory environments (e.g., taxing insurance premiums), broad economic conditions (e.g., inflation), insurance market trends (e.g., insurer consolidation and decreasing competition), and other factors.

[30] Elizabeth Plummer, Allison Percy, and Ge Bai, "Trends in Premiums, Claims, and Enrollment for Fully Insured Large Group, Small Group, and Individual Health Plans from 2011 to 2021," *JAMA Network Open*, April 18, 2023, https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2803945.

[31] Jared Ortaliza, Krutika Amin, and Cynthia Cox, "As ACA Marketplace Enrollment Reaches Record High, Fewer Are Buying Individual Market Coverage Elsewhere," KFF, September 7, 2023, https://www.kff.org/private-insurance/issue-brief/as-aca-marketplace-enrollment-reaches-record-high-fewer-are-buying-individual-market-coverage-elsewhere/.

[32] See Jared Ortaliza et al., "How ACA Marketplace Premiums Are Changing by County in 2023," KFF, December 19, 2022, https://www.kff.org/private-insurance/issue-brief/how-aca-marketplace-premiums-are-changing-by-county-in-2023/; and Jared Ortaliza et al., "How Much and Why 2024 Premiums Are Expected to Grow in Affordable Care Act Marketplaces," KFF, August 4, 2023, https://www.kff.org/affordable-care-act/issue-brief/how-much-and-why-2024-premiums-are-expected-to-grow-in-affordable-care-act-marketplaces/.

[33] For example, see Kendall Strong et al., *Improving and Strengthening Employer-Sponsored Insurance*, Bipartisan Policy Center, October 27, 2022, https://bipartisanpolicy.org/report/improving-employer-sponsored-insurance/.

an income limit, premium growth can continue to alter which households are eligible for and claim the PTC; this, in turn, directly affects total federal spending.[34]

For example, the Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) developed estimates for PTC provisions in S.Con.Res. 5.[35] CBO and JCT projected that the PTC provisions would increase the subsidized PTC population by (1) drawing in new individuals who were attracted to the enhanced subsidies and (2) allowing current enrollees who were initially ineligible for the PTC because their incomes were greater than 400% of FPL to gain eligibility. With respect to budgetary effects, CBO and JCT estimated an increase in premium tax credits of approximately $35.5 billion. Specifically, "new marketplace enrollees would account for $13.0 billion of the estimated increase in premium tax credits and existing marketplace enrollees would account for the remaining $22.5 billion."[36]

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[34] The PTC is financed through a permanent appropriation through Title 31 of the United States Code which provides indefinite budget authority for PTC disbursements (31 U.S.C. §1324). Therefore, statutory provisions that expand eligibility and increase subsidy amounts together would result in an increase in federal tax expenditures.

[35] ARPA's PTC provisions were initially included in legislation approved by the House Committee on Ways and Means in response to budget instructions in S.Con.Res. 5.

[36] Congressional Budget Office, Cost Estimate, Reconciliation Recommendations of the House Committee on Ways and Means, As ordered reported on February 10 and 11, 2021 (Revised February 17, 2021), p. 11, https://www.cbo.gov/system/files/2021-02/hwaysandmeansreconciliation.pdf.